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## Can the G20 include sustainability reporting in the agenda of all of the world 20 largest economies?

Duarte Correia, A.

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**RAFAL STROINSKI** Warsaw University, Poland  
e-mail: [Rafal.Stroinski@uw.edu.pl](mailto:Rafal.Stroinski@uw.edu.pl)

**CHRISTOPH TEICHMANN** University of Heidelberg, Germany  
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**CORNELIS DE GROOT** Leiden University, the Netherlands  
e-mail: [c.degroot@law.leidenuniv.nl](mailto:c.degroot@law.leidenuniv.nl)

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# Can the G20 Include Sustainability Reporting in the Agenda of All of the World 20 Largest Economies?

BY ALEXANDRA DUARTE CORREIA, DOCTORAL CANDIDATE, PRIVATE LAW DEPARTMENT, FACULTY OF LAW, VU UNIVERSITY AMSTERDAM\*

## 1. INTRODUCTION

As acknowledged by many experts within Governments, the corporate sector and academia, today we are confronted with multiple crises. The recent report from the High-level Panel on Global Sustainability presented to the Secretary-General on 30 January 2012, refers that the 'global economic crises did not end after 2008, but have instead become more multifaceted.' According to this Panel, there is a sovereign debt crisis, a financial crisis, a growth crisis, a jobs crisis and a governance crisis.<sup>1</sup> If the right actions are not taken, the right methods are not in place and the right people are not in charge, the long-term scenario prediction is a deepening or returning of the current crises. The importance of increasing transparency, openness and fairness in capital markets is therefore, crucial. Not only transparency in the reporting of financial information but also in the reporting of non-financial information. In respect of the latter, organizations as the Global Reporting Initiative (GRI)<sup>2</sup>, the International Integrated Reporting Council (IIRC)<sup>3</sup>, the United Nations Global Compact (UNGC)<sup>4</sup> and United Nations (UN) backed Principles for Responsible Investment (PRI), have been committed to developing voluntary frameworks for the disclosure of non-financial information. These initiatives have highly contributed to creating awareness of Sustainability Reporting (SR) in investors, corporate sector, rating agencies and Governments. Due to the work of these organizations we see an increase on SR and an increase of awareness. This does not equal reporting quality but it is certainly a sign of where SR is heading. It is a good thing. In theory, one cannot be against increasing SR of

companies. In practice, because of mistrust on international competition, budget constraints and some scepticism with the sustainability cause, the corporate sector does not always commit.

Against this setting, in this article I look at how SR can be mainstreamed. First, in a glance, I present the state of the art of SR. Second, I examine the EU's approach to this topic, as an example of how an economic and political partnership between 27 countries has approached SR. And third, I look at the opportunities and limitations of the influence of the G20 to act as 'steering committee' (van de Graaf & Westphal, 2011) in favour of SR. To understand the potential role of the G20, I studied its work on energy and climate change, particularly its accomplishments and limitations, and explored the potential influence of the G20 on SR. Finally, I ascertain how SR can take advantage of the G20's positioning, capabilities and influence to bring it forward.

## 2. HOW CAN WE MAINSTREAM SUSTAINABILITY REPORTING?

### 2.1. The State of the Art of Sustainability Reporting (SR)

Numerous articles, surveys and websites from organizations as GRI, European Commission (EC), UN, pension funds, rating agencies, companies and others, have shown that there is growing global concern to overcome the obstacles for pursuing sustainable development.<sup>5</sup> Believing in the benefits of an honest, accurate and transparent disclosure of non-financial information, these organizations have developed various instruments aiming to assist those who are interested in this commitment. The instruments are not binding, so voluntarily adopted, and put into practice by their signatories. Most European

\* I am grateful to Prof. Dr. Jan Bernd Huizink for his insightful comments and advice on the earlier drafts. This paper also benefitted from discussions with Gláucia Terreo, GRI Focal Point Brazil and Cees van Geffen, Senior Manager at Ernst & Young. Any remaining errors are my own. All comments are welcome at: a.duartecorreia@vu.nl.

1 United Nations Secretary-General's High-level Panel on Global Sustainability (2012). *Resilient People, Resilient Planet: A future worth choosing*. New York: United Nations. This report is available at: <http://www.un.org/gsp/report>. (accessed Feb. 7, 2012).

2 GRI is a Multistakeholder non-profit organization that develops and publishes guidelines for reporting on economic, environmental and social performance (sustainability performance). As the world's most widely-used sustainability reporting framework, the GRI Sustainability Reporting Guidelines are being used by a vast number of different organizations.

3 After the IIRC series of meetings in Brazil in November 2011, marking a new phase in the initiative to develop an internationally accepted Integrated Reporting Framework. The International Integrated Reporting Committee has become the International Integrated Reporting Council.

4 For further reading about the UNGC work, please see Buhmann, Karin, *The Danish CSR Reporting Requirement: Migration of CSR-Related International Norms into Companies' Self-regulation through Company Law?*, 2/3 European Company Law 8, 65–73 (2011).

5 For a comprehensive overview of the state of the art of SR, including legal developments in different countries, please see the *European Company Law Special Issue ECL 2011 issues 2/3* about Corporate Social Responsibility.

countries have a voluntary approach to non-financial disclosure. However, there are a few countries with a mandatory approach to non-financial disclosures, as Denmark<sup>6</sup>, France, the Netherlands, Sweden and the United Kingdom (UK). Outside the European Union there are important developments towards non-financial disclosure in, for example, Brazil, South Africa and United States of America (USA). While adopted by numerous signatories, the voluntary instruments have proven not to be effective as there is no effective monitoring on the activities of the signatories, to measure the extent of their commitment and no legal accountability for breaching these commitments. The lack of regulation triggers an incentive problem between the main players involved in capital markets. With no incentives to act socially responsibly, companies and their shareholders will most probably have their main focus on making short-term profit, and with no legal rules, they will not be held accountable for not providing honest, accurate and transparent information to the stakeholders.

Below in point 2.2 I look at the EU approach to SR, its initiatives, achievements and look, on the long-term, at where the developments are heading. I examine what we can learn from the past 10 years of EU approach to SR. Based on lessons learnt I will ascertain if the best way of mainstreaming SR is through the EU; or if there are any other organizations better positioned to take over the SR cause.

## 2.2. The European Union Approach: Is It Enough to Mainstream Sustainability Reporting?

The EU has been backing-up SR and has had good and promising initiatives but as I will demonstrate further in this article, these are not enough to elevate it to a mainstream.<sup>7</sup> The 4<sup>th</sup> Company Law Directive of 25 July 1978 on the annual accounts of certain types of companies (Company Law Directive, 78/660/EEC – as amended by the Modernization Directive, 2003/51/EC of 18 June 2003) on a voluntary basis, leaves it to companies' discretion to decide on whether to publish data related to environmental and employee matters as well as the choice of data to be published. Directive 2003/51/EC of June 2003 or EU Accounts Modernization Directive on

annual company accounts, amended Article 46 (1) (b) of the 4<sup>th</sup> Company Law Directive. Since 1 January 2005 companies are invited for the first time to take the opportunity to publish non-financial data (key performance indicators - KPIs<sup>8</sup>) on environmental and social matters. These, in addition to the financial requirements in their annual reports, to the extent necessary for an understanding of the company's development, performance or position; This is therefore, the most important Directive for sustainability reporting in Europe. Member States, however, may exempt small and medium-sized companies from this disclosure obligation.<sup>9</sup> The text of article 46 (1) (b) of the 4<sup>th</sup> Company Law Directive is presented below:

Article 46(1) (b) of the 4th Company Law Directive:

(b) To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters;

Although the EC carried on a consultation process addressing the issue of regulating the disclosure of non-financial information, the current Transparency Directive does not yet contain any reference to Environmental, Social and Governance (ESG) issues. Neither does the proposal of modernization of this Directive suggests or puts this option forward. The Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 or Transparency Directive is responsible for the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market which amended the Directive 2001/34/EC. On 28 May 2010, the EC Directorate-General (DG) Internal Market and Services launched a public consultation on the modernization of Directive 2004/109/EC (Transparency Directive). Afterwards, the EC initiated an impact assessment concerning the public consultation on the modernization of the Transparency Directive. The impact assessment took into account the results of the

6 For further reading about SR developments and tendencies in Denmark, please see Buhmann, Karin, *The Danish CSR Reporting Requirement: Migration of CSR-Related International Norms into Companies' Self-regulation through Company Law?*, 2/3 European Co. L. 8, 65–73 (2011).

7 In my PhD dissertation book (work in progress) I provide a broader and deeper overview of the EU approach and regulatory initiatives.

8 According to the Accounting Standards Board (ASB), Key Performance Indicators (KPIs) are "factors by reference to which the development, performance or position of the business of the company can be measured effectively. They are quantified measurements that reflect the critical success factors of an entity and disclose progress towards achieving a particular objective or objectives." More information available at: <http://www.frc.org.uk/images/uploaded/documents/Reporting%20statements%20OFR%20web.pdf>. (accessed Jan. 11, 2012).

According to the GRI reporting framework, KPIs can be Economic, Environmental, Social: labour practices and decent work, Human Rights, Society and Product Responsibility. E.g. Energy, Water, Biodiversity, Economic Performance, Corruption, Customer Health and Safety.

More information available at: <https://www.globalreporting.org/reporting/guidelines-online/G3Online/StandardDisclosures/Profile/Pages/default.aspx>. (accessed Jan. 11, 2012).

9 According to the EC Directorate-General for Enterprise and Industry, a company is considered micro, small or medium-sized according to the following table:

Enterprise category	Headcount	Turnover	Or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

More information available at: [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm). (accessed Jan. 11, 2012).

public consultation. The proposal of the EC on this subject was made public on 25 October 2011.<sup>10</sup>

On 22 November 2010, the EC launched a public consultation on disclosure of non-financial information by companies, it closed on 29 January 2011. This consultation is part of the Single Market Act (COM (2010) 608 final/2) announced by Commissioner Barnier on 27 October 2010. The EC referred that the consultation aimed at gathering views on how to improve the EU framework for non-financial reporting. In particular, the consultation aimed at gathering quantitative and qualitative evidence on impacts, costs and benefits resulting from the requirements of the Transparency Directive, as well as views on possible amendments to these requirements. The EC DG Internal Market and Services analyzed 111 replies received to the consultation in order to better understand if there is a need to modify the current legislation.<sup>11</sup>

So far, to promote SR, the EU set-up a strategy, targets, developed directives, wrote communications, a green and a white paper, organized the CSR Multistakeholder Forum and various workshops. However, it is my view – in accordance with the view of the European Parliament (EP) and the European Sustainable Investment Forum (Eurosif) – that promoting SR – in such a passive way – is not enough to take it to a mainstream. In reaction to the Commission's Communication, on 13 March 2007 the EP voted unanimously to accept a resolution on 'mandatory reporting on the social and environmental impacts of business'. In this report the EP questions the validity of only supporting a voluntary approach towards SR, arguing that companies should be encouraged to produce an annual SR report.<sup>12</sup> Also Eurosif, in 2009, published a public policy paper related to sustainable and responsible investment (SRI).<sup>13</sup> In this paper, Eurosif recommends the EC to increase transparency in capital markets and mandate the disclosure of ESG data by publicly traded, and large corporations. Such reporting would be principles-based and use a limited number of standardized KPIs, some of them being sector-specific. In the same line of reasoning, please see Kristina Hermann, she considers that '... a regime such as that proposed by the European Union is likely to fail because of the lack of a strict enforcement mechanism whereby the actions of corporations operating globally can be monitored and socially irresponsible deeds can be penalized.' (Kristina Herrmann, 2004); Benjamin J. Richardson who affirms that '(...) company law must be opened to the sustainability agenda through rigorous changes (...)'. (Benjamin J. Richardson, 2011); and Beate Sjøfjell who recognizes the need of the law to combat the shareholder primacy drive and get across companies that social responsibility is in its essence, its core, not a voluntary matter. (Beate Sjøfjell, 2011)

The EU is a powerful entity with capabilities of unifying national legislation of the Member States. It has the potential to take the lead in guiding – at least – European listed companies to disclose non-financial information. Not doing so and being too permissive might suggest loss of credibility and more than promoting SR debate might promote unnecessary 'green washing' and business as usual. The EU encourages the dialogue between stakeholders and supports upcoming developments on the subject. As referred in the summary of parallel session Panel 1 of the Multistakeholder Forum on CSR on 10 February 2009 the 'EU should continue to support a positive environment for CSR'.<sup>14</sup> This approach no matter how 'empty' it is, is supported by the Member States, their governments and companies. Until now, the voluntary instruments and non-binding commitments of the EU have proven themselves weak, insufficient and unsuccessful. Benjamin J. Richardson considers, in my opinion well, that 'Part of sustainability's appeal is its potential ambiguity and open-endedness, enabling numerous actors with divergent objectives to embrace it without being held measurably accountable.' (Benjamin J. Richardson, 2011) The EU initiatives are okay and show Europe's 'good will' but if we want these objectives to be accomplished, the EU needs to add appropriate enforcement tools to its good intentions. Otherwise, it is jeopardizing the economic and social future of the EU and its Member States.

Article 46 (1) (b) of the Fourth Company Law Directive as amended by the Modernization Directive allied to the recent developments concerning the modernization of Transparency Directive certainly are not enough to mainstream sustainability reporting. The EU needs to strengthen its message. Although evidence shows that SR is moving forward – as already mentioned earlier, with many initiatives, organizations involved and some good achievements – it is still in an early stage of development. This might be partly due to the lack of intervention of the EU. As we know, the EU represents only 27 countries. In a world of nearly 200 countries that represents around 13% of the peoples of the world. Again, the international competition argument allied with the lack of international coordination plays a role in preventing further action from both the EU and the Member States. Could the G20 be the appropriate vehicle to mainstream sustainability reporting, as an alternative to the EU voluntary approach?

10 Commission staff working paper, impact assessment *accompanying the document* - proposal for a directive of the European Parliament and of the Council, amending Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market. (COM(2011) 683 final) (SEC(2011) 1280 final).

11 More information about the Transparency Directive consultation process is available at: [http://ec.europa.eu/internal\\_market/consultations/2010/transparency\\_en.htm](http://ec.europa.eu/internal_market/consultations/2010/transparency_en.htm), [http://ec.europa.eu/internal\\_market/securities/docs/transparency/transparency-consultation-summary\\_en.pdf](http://ec.europa.eu/internal_market/securities/docs/transparency/transparency-consultation-summary_en.pdf) and <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/734&format=HTML&aged=0&language=EN&guiLanguage=en>, last (accessed Jan. 17, 2012).

12 More information about the EP report is available at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT%20REPORT%20A6-2006-0471%200%20DOC%20XML%20V0//EN&language=EN>, last accessed on Dec. 14, 2011.

13 Eurosif is a pan-European network and think-tank whose mission is to Develop Sustainability through European Financial Markets.

14 More information about the parallel session Panel 1 of the CSR Multistakeholder Forum is available at: [http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/documents/stakeholder\\_forum/p1\\_international\\_processes\\_en.pdf](http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/documents/stakeholder_forum/p1_international_processes_en.pdf). (accessed Dec. 1, 2011).



### 3. THE LINK BETWEEN THE EU FINANCIAL REPORTING POLICY AND THE FINANCIAL REPORTING DEVELOPMENTS IN THE US

If the International Financial Reporting Standards (IFRS) or United States Generally Accepted Accounting Principles (US-GAAP) did not exist, companies could probably write whatever would benefit them and their shareholders the most. It would be difficult for investors to decide where to invest their money. SR is voluntary, not standardized like financial reporting based on uniform standards as the IFRS or US-GAAP. Although very important steps towards SR have been taken, the information provided to the stakeholders is far from sufficient and accessible for an effective assessment on the companies. The US-GAAP were developed following the stock market crash of 1929. The International Accounting Standards (IAS) were developed in 1973 and issued between 1973 and 2001 by the International Accounting Standard Committee Board (IASC).<sup>15</sup> In 2001, the new International Accounting Standards Board (IASB) took over the IASC's responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards IFRS. The IFRS were developed in 2001. While, in the US, the financial reporting standards were developing, in the EU, the European dual listed multinational companies were increasingly applying the US financial reporting standards – the US-GAAP. Attempting to stop these companies from using the US reporting standards, the EU developed Accounting Directives during the nineties. This initiative was not successful, as these were not well received and not applied by those companies. In 1995, the EU understood the failure of its former accounting initiatives and decided to change its strategy. The EU was told about a group of accountants called the IASB which was, and still is, an independent and international private organization composed of a group of experts in the field of accounting and auditing who developed international accounting standards. The EU decided to support this initiative and recommended the Member States to apply the IAS on a voluntary basis. Afterwards, most of the dual listed EU multinational companies were still applying the US-GAAP, which meant the repeated unsuccessful of the EU approach to accounting reporting.

In 2000, the EU changed its approach and moved its policy from voluntary to mandatory. Looking back at the Directives issued in the nineties the EC in avoidance of committing the same policy errors, opted for issuing Regulation (EC) No 1606/2002 of the European Parliament and of the Council, which in 2002, directly required the European listed companies to apply the IFRS on a mandatory basis. The EC gave the European listed companies three years to adapt their internal policies and management and required the reporting

accordingly to the IFRS to be fully in place by 2005.<sup>16</sup> This measure was responsible for mainstreaming the use of IFRS in all the EU Member States, and currently it is applied in more than 100 countries worldwide. Today, the US is the only major country to not formally commit to the adoption of IFRS (Needles, Jr. & Powers, 2011). The fact that the EU had the pressure of the American financial reporting system to be mainstreamed in Europe pushed the EU to act. It was no option for the EU to have the US determining how, when and to whom the European companies should report to. The EU did not want the US influence on the EU companies and markets. The same does not happen to sustainability reporting. There is no threat of a US sustainability reporting system and therefore, there is no similar pressure and incentive for the EU to change its policy, as it happened with the financial reporting system. Besides, we must note the fact that most US companies do not report on sustainability, as well as many other companies from different countries in the world. This fact positions the EU companies who report on sustainability in competitive disadvantage compared with the non-reporting companies. This is a good reason why it is so important to draw the G20's attention to SR and market the initiative of the IIRC in order to include SR in the agenda of the G20. This will mean the international support of the major developed and fast growing economies in the world, the EU included. It will show support to those companies who already report on their sustainability and it will be an incentive to other companies to do the same. This will change the competition mindset among the different capital markets as it will give a competitive advantage to the reporting companies rather than to the non-reporting companies. If EU companies and stakeholders trust that SR in the EU will be the standard for the rest of the world, they will have a sustainable competitive advantage in implementing and adopting these standards at an early stage. Ultimately, it will give opportunity to organizations as the IIRC and GRI to develop and mainstream a framework for SR, and will allow law and policy making bodies, as the EU and UN to not only support but require the mandatory use of such a framework.

On 30 January 2012 the UN secretary general's High Level Panel on Global Sustainability proposed stronger SR requirements for businesses in its report 'Resilient People, Resilient Planet – A Future Worth Choosing'. The Panel supports mandatory SR by companies with market capitalization over USD 100 million, and suggested the cooperation between business groups with governments and international agencies in order to develop a framework for sustainable development reporting. The Panel also recommended the Secretary-General to appoint a technical task force with representatives of all major stakeholders to develop a Sustainable Development Index or a set of indicators to measure progress on sustainable development, by

15 In 1973 the professional accountancy bodies of Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States. This bodies were also members of the International Federation of Accountants (IFAC). By 1997 the IFAC had 119 members from 88 countries. Information collected from Needles, Jr, Belverd E. & Powers, Marian, *International Financial Reporting Standards: An Introduction*, (2d ed., 2011).

16 Commission Regulation (EC) No 1126/2008 of Nov. 3, 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, is the latest version of the Regulation. The full text of the Regulation can be accessed at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32008R1126:EN:NOT>.

2014. In this document the Panel asks for concrete follow-up action by the Secretary-General to implement the recommendations which fall within his authority to do so and to promote these to other relevant stakeholders. Another recent and potentially important document for the discussions at the upcoming conference Rio +20 in Rio de Janeiro, 2012 is the 'Zero Draft'.<sup>17</sup> It is a negotiating text for the UN Conference on Sustainable Development and calls for global policy to require all listed and large private companies to integrate sustainability in their reporting practices. There is great expectation on the outcome of the Rio +20 meeting; the UN already came with concrete recommendations to be discussed at this conference, the IIRC is expected to present a proposal to the G20 at this same meeting and the Zero Draft was elaborated aiming at promoting the discussion and trigger further action to track the ultimate goal of sustainable development.

In the past 10 years the EU did not use its full potential to bring SR to a mainstream. Once again, the EU followed the US financial reporting policy developments. In response to the international financial developments, the US included a requirement to report payments to governments in the Dodd Frank Act in the United States (CBCR: Country by Country Reporting). Looking at the US regulatory initiative, the EC proposed amendments to the Transparency Directive concerning CBCR but did not include any change on the disclosure of non-financial information.<sup>18</sup> Concerning the EC proposal to revise the Transparency Directive, in point 6 'The instrument to be used and transposition and compliance aspects' of the document 'Summary of impact assessment', the EC acknowledges that 'Only a binding legal instrument would ensure that all MS apply the same regulatory framework based on the same principles.' and adding that the existing framework for sanctions should also be improved. This means that the EC is well aware that the current voluntary approach to SR has no effect on National legislations. It had a chance to review its strategy and did not use it.

#### 4. COULD THE G20 BE WELL POSITIONED TO MAINSTREAM SUSTAINABILITY REPORTING?

Considering the history of support and initiatives on Energy and Climate Change, at first in 2000 from the G8, and later since 2009 from the G20, the IFAC, the IIRC and the GRI believe in the

potential strength of the Group of Twenty (G-20) to push SR into a higher level.<sup>19</sup> The IFAC proposed the G20 at the Cannes Summit in November 2011 to support the IIRC integrated reporting framework; and the IIRC is currently working on a proposal to the G20 for the Rio +20 conference on sustainable development in June 2012, in Rio de Janeiro, Brazil. Also the EC acknowledges the influence of the G8's recommendations in the concluding Declaration of the G8 Summit, in Deauville, of May 2011. When addressed about the reasons to propose the modernization of the Transparency Directive, the EC referred to the G8's direct influence to legitimate its actions on the Transparency Directive, and builds its regulatory developments upon its recommendations. Therefore, bringing legislation further and increasing harmonization on a Member State National level. We have seen more than ten years of efforts which lay behind us and we should look for effective alternative solutions.

The achievements and limitations of the G20's work on the international agenda have long been debated. Since the upgrade of the G7/G8 to the current G20 format, the most recurrent critics are, among others, the following. The G20 is a top-down, executive mode of institutional reform (Cooper, 2010a).<sup>20</sup> This means that power is concentrated on the high representatives of a state and on governments and therefore, the political leaders are who determines what should be done (Easterly, William, 2008).<sup>21</sup> Cooper criticizes the G20 for having a highly restricted composition picked on a hierarchical basis and is of the opinion that the G20 comprehends a form of insider/outsider discrimination via a self-selected club. This author believes that the G20 lacks UN support to some extent; this lack of support has been less since the past two years, even Mr. Ban Ki-Moon has referred that the G20 and the UN are two different but complementary institutions, not competing and contradictory (Cooper, 2011 and Kim, 2010b).<sup>22</sup> For Cooper the most referred limitation of the G20 lies on its representational gaps (Cooper, 2011) namely the overrepresentation of the EU seats,<sup>23</sup> and believes 'the system of global governance is under serious challenge. The UN, the G7/8, the IMF and the World Bank are but a handful of organizations suffering from a crisis of legitimacy for an international system that appears ill-suited for timely, innovative and effective solutions to contemporary global challenges.' Another author sceptic about the positive effects of the Group of 20 is Anders Åslund. He has the opinion that the G20

17 Zero Draft, *The Future We Want*, UN, Jan. 10, 2012. Available at: <http://www.uncsd2012.org/rio20/content/documents/370The%20Future%20We%20Want%2010Jan%20clean.pdf>.

18 The Securities and Exchange Commission is currently working on the implementation rules of the CBCR. More information is available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/734&format=HTML&aged=0&language=EN&guiLanguage=en>, last accessed on the 29th December 2011.

19 For deeper understanding of these developments, please see Thijs van de Graaf & Kirsten Westphal's article, *The G8 and G20 as Global Steering Committees for energy: opportunities and constraints*, 2 Global Policy 19–30 (2011); And the section concerning the "Combating climate change and promoting green growth" of the document "Snapshot of steps taken and progress made 2008–2011", prepared by the French Presidency, available at: [http://www.g20-g8.com/g8-g20/root/bank\\_objects/BilanG20.pdf](http://www.g20-g8.com/g8-g20/root/bank_objects/BilanG20.pdf).

20 "Top down" versus "Bottom up" are two contrasting worldviews which coexist in institutional economics since the eighteenth-century period of Enlightenment. In the "top down" view, institutions are seen as determined by laws written by political leaders (the view of most Enlightenment intellectuals, as Rousseau and Condorcet).

21 Easterly, William, *Design and Reform of Institutions in LDCS and Transitions Economies. Institutions: Top Down or Bottom Up?*, 98:2 Am. Econ. Rev.: Papers & Proceedings, , 95–99 (2008). The full paper is available at: <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.98.2.95>.

22 Concerning the differences between G20 and the UN, Cooper, 2010, also refers to the fact that in the UN smaller states have ample voice opportunities. The same does not apply to the G20.

23 To justify the G20 guest countries at the Seoul summit, the Korean preparatory committee explicitly stated that "we finally agreed that we needed to have a better geographical balance" (Cho, 2010).



can be categorized as the 'rule of big powers over the rest' and it must be stopped (the Financial Times, 26 November 2009<sup>24</sup>). For Åslund the G20 abuses of the principle of universality and 'violates fundamental principles of international co-operation by arrogating for itself important financial decisions that should be shared by all countries.' This author has the opinion that the International Monetary Fund (IMF) should be urgently reformed as it has 'all the properties the G20 lacks – universality, statutes, governance and staff (...) while the G20 should step aside and serve as nothing more than a consultative forum.'

Among the positive characteristic of the G20 are the following. Andrew F. Cooper being critic of the G20 also recognizes the positive traits of the group. The G20 contains in its approach an innovative way of Global Governance and organizational update (Cooper, 2011). In the same line of thought, Thakur and van Langenhove add that 'the policy authority for tackling global problems still belongs to the states, while the sources of the problems and potential solutions are situated at transnational, regional or global level' (Thakur and van Langenhove, 2008, p. 18). The G20 is a catalytic agent for institutional reform and a channel of international communication; it ensures continuous discussions and exchange of ideas with regard to the international agenda. Due to the lack of a permanent secretariat, the G20 is an informal organization with no fixed agenda and therefore, more flexible and agile. (van de Graaf & Westphal, 2011) Thijs van de Graaf and Kirsten Westphal identify the G20 as a Crisis committee and potential global steering committee. These authors define 'steering committee' as 'a group of major countries that has the capacity and the aspiration to produce public goods for the international community,' and as 'a diplomatic device to encourage consensus between the biggest countries on major transnational issues.'<sup>25</sup> (Thijs van de Graaf & Kirsten Westphal, Global Policy, September 2011). The diplomatic skills of the G20 are crucial for facilitating consensus and consequently influence policy at every level. E.g. EU, UN and National Governments.

Ngairé Woods and Leonardo Martínez-Díaz perceive the G20 has a network. For these authors, this quality is given upon the reunion of three qualities: repeated interaction between actors; no one has authority to arbitrate a dispute, no one has authority to settle a conflict has its power come from hubs. About the power of networks, Woods and Martínez-Díaz agree on the fact that by definition a network does not have the mechanisms and tools to develop and implement their ideas and projects, since their decisions are not legally binding. It is a 'soft regime' as van de Graaf & Westphal, 2011, call it. These authors refer to Victor, 2006 to clarify their idea. According to Victor, 2006, if there is a combination of high-level political engagement, institutions conducting

detailed performance reviews, and a certain periodicity of meetings, then the non-binding commitments can turn-out to be more effective than law. These authors believe that governments will more easily commit to 'more ambitious courses of action through non-binding instruments.'<sup>26</sup> Decisions are made through organizations like the UN, EC and national Governments. The G20 ministers of finance communicate orders to 'subordinates' or other state members, and each one of them has then their own interpretation. It is necessary to engage the network and engage it in capacity building networks. Woods and Martínez-Díaz state that in a powerful network three requirements are needed: i) information sharing and acquisition; ii) give opportunities to formulate positions and new strategies; iii) have the chance to coordinate positions. Then it is important to feed these results to other organizations (formal and/or informal organizations). These three requirements are not enough to change global politics but are enough to maximize the room for manoeuvre that developed and developing countries have working together.

##### 5. THE INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) AND THE IIRC PROPOSALS TO THE G20

The IFAC presented a series of recommendations to the Group of 20 at the Cannes Summit on 3–4 November 2011, in France.<sup>27</sup> The IFAC as the global organization for the accountancy profession around the world, represents about 2.5 million accountants in public practice, industry and commerce, government, and education. The mission of IFAC is to contribute to the development, adoption and implementation of high quality international standards, and consequently contributing to the development of strong international economies. The IFAC encourages the G20 to continue its essential work on addressing the global financial crisis related issues and to meet the commitments made at the previous summits, in its communiqués of 2008–2010, and in reports of its working groups. SR is currently not part of the G20's debate. It is the IFAC's view that the G20 must endeavour for high quality reporting, internationally consistent, relevant and reliable, financial and non-financial information by all sectors. (Recommendations for the G20 Nations – Meeting of 3–4 November 2011) At the G20 Cannes Summit on 3–4 November 2011, in France, the IFAC recommended the G20 with the development of integrated reporting, also referred as <IR>. The IFAC not only encouraged the G20 to support the development and use of <IR> but also particularly advised the G20 to signal its support for the work of the IIRC in developing a globally accepted <IR> framework. The IFAC recognizes the strength of the IIRC as it represents 'a collaboration of representatives from cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic, and standard setting sectors, as well as civil society.'

24 This article is available at: <http://www.ft.com/intl/cms/s/0/37deae4b-dad0-11de-933d-00144feabdc0.html#axzz1g1uNVC9f>. The author Anders Åslund is a senior fellow at the Peterson Institute for International Economics.

25 In the same line of thought please see: Huang, 2009; Lesage et al., 2010; and Victor and Yueh, 2010.

26 Victor, D. G., *Toward Effective International Cooperation on Climate Change: Numbers, Interests, and Institutions*, 6 (3) Global Envtl. Pol. 90–103 (2006).

27 IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. More information is available at: <http://www.ifac.org/about-ifac>.

The GRI and the IIRC are two separate organizations with a shared objective, to mainstream SR.<sup>28</sup> While the GRI developed a framework for reporting on ESG aspects of companies, the IIRC went further and it is currently working towards the development of a framework for reporting not only on non-financial information but combining it with reporting on financial information. This new way of reporting is called Integrated Reporting (<IR>). GRI defines itself as ‘a network-based organization that has pioneered the development of the world’s most widely used SR framework.’ This Reporting Framework developed by GRI sets out the principles and KPIs that organizations can use to measure and report their economic, environmental, and social performance. The basis of this framework is the G3 Guidelines which are the third version of the SR guidelines.<sup>29</sup> The guidelines are voluntary, were published in 2006 and are since then freely available to the general public. The G3 guidelines are complemented by the sector supplements – unique indicators for industry sectors – and the national annexes – unique country-level information. By developing these SR instruments GRI provides a unique set of tools to help the stakeholders to disclose and compare information, increasing transparency in the financial markets and facilitating accountability.<sup>30</sup> Companies are now well equipped to disclose non-financial information in a uniform, transparent and accurate way. In the ‘bigger picture’ GRI aims to help mainstreaming SR.

The IIRC was formed by the ‘The Prince of Wales’s Accounting for Sustainability Project’ (A4S) and the GRI in August 2010. The IIRC is a recent initiative, composed by international different sector leaders and it aims to develop a globally accepted <IR> framework combining financial and non-financial disclosure (ESG information) in a single report. The information should be provided in a clear, concise, consistent, comparable and integrated format – a single report. It is formed of 25 individual corporate and civil leaders and three task forces. Its goal is to create a standardized system for <IR> that will be adopted by all countries. As of 2010, when the IIRC was founded, only two countries, Denmark and South Africa, had adopted <IR> laws.<sup>31</sup> The IIRC has plans to write a proposal to the G20, to be presented at The United Nations Conference on Sustainable Development (UNCSD) which will take place on the 20–22 June 2012, in Rio de Janeiro, Brazil.<sup>32</sup> Accordingly to Mr. Paul Druckman, CEO of the IIRC, the IIRC already took steps towards creating awareness of <IR> at the G20 Cannes Summit. Although the Greek economic crisis dominated this summit, the IIRC

promoted the concept of <IR> through dialogue and discussions with the finance minister from key countries. E.g. South Africa, UK. At this moment, we cannot say that the G20 is well aware of the IIRC work, at least not formally, particularly the development of an <IR> framework. (Paul Druckman, CEO IIRC)<sup>33</sup>

For IFAC, IIRC and GRI, in the moment that the G20 gets interested about SR, it has the potential to be a turning point on the SR developments. If we look at how the energy and climate change topics have evolved since entering at first, in the G8’s agenda, and later passed-on to the G20’s agenda, we can see a positive development as these issues were put on the top priority list agenda of the two groups. The first objective should be the creation of enough awareness in the G20 of the relevance and impact of SR, through the work of the IFAC, GRI and IIRC for example. Second, the G20 should follow action on this awareness and include SR in its agenda. If the G20 agrees to include SR in their agenda, this represents a long-term commitment, stimulates discussion, ensures continuity and it is a success in itself already, as it will give more visibility, confirm the legitimacy of previous (corporate, governments and organizations) actions and promote the topic to those who do not know it. Third, signal its support and endorse the <IR> framework in development by the IIRC. There will then be a need of coordination since coordination is crucial for counter balancing of powers and agreement on the work on the long-term. Together with other organizations, as the UN for example, the G20 should help developing proposals for SR mechanisms (again the IIRC should, at least be, an option), setting-up new strategies and make recommendations on how to introduce the new way of reporting on financial and non-financial information. This would build confidence in SR and in capital markets.

## 6. CONCLUSION

This article looked at the potential of the Group of 20 to influence the international mainstream of SR. What would be the result of, if in support of SR, the G20 would include the topic in its agenda? The purpose of this article was, considering the patent limitations of the EU approach to SR, to examine the potential strength and impetus that the G20 might have in the future of SR, if taken to its full capacity and influence. First, in a glance, I present the state of the art of SR; second, and as an example of how an economic and political partnership between 27 European countries has approached SR, I examine the EU’s approach to this topic; and third, I look at the

28 The International Integrated Reporting Council (IIRC) had until 2011 the name of International Integrated Reporting Committee.

29 More information about the sustainability reporting G3 guidelines is available at: <https://www.globalreporting.org/reporting/reporting-framework-overview/Pages/default.aspx>.

30 The stakeholders are among others, the investors, companies, organizations, institutions, stock exchanges, sustainability indices and the consumers.

31 According to the IIRC, “since integrated reporting is still in its early stages, just what it means to issue an integrated report is not yet well defined. At least five US companies—AEP, KKR, Southwest Airlines, Pfizer, and United Technologies Corporation—declare that they practice integrated reporting. Natura, Novo Nordisk, and Philips are acknowledged leaders in integrated reporting and have been doing so for at least three years. Approximately 270 companies using the Global Reporting Initiative’s G3 Guidelines are self-declared integrated reporters. As of March 1, 2010, approximately 450 companies listed on the Johannesburg Stock Exchange must file an integrated report or explain why they are not doing so. These numbers, while small relative to the total number of publicly listed companies in the world, show that interest in integrated reporting by companies is rising.”

32 The Conference will focus on two themes: (a) a green economy in the context of sustainable development and poverty eradication; and (b) the institutional framework for sustainable development. For more information please access the conference website at: <http://www.uncsd2012.org/rio20/index.php?menu=17>.

33 In December 2011, in conversation with Mr. Paul Druckman, CEO IIRC, concerning the IIRC plans of proposal to the G20 at the Rio +20 conference: “Yes very much so with planning and engagement going ahead strongly as the new team of the IIRC beds itself into place.”

opportunities and limitations of the potential influence of the G20 to act as 'steering committee' (van de Graaf & Westphal, 2011) in favour of SR. I describe the G20's work on energy and climate change, look at its accomplishments and limitations, aiming at a promising comparison with the potential work/influence of the G20 on SR. Finally, I ascertain how SR can take advantage of the G20's positioning, capabilities and influence to bring it forward.

I reached three main conclusive points. First, the EU was not yet able to take SR into mainstream. SR is a generally accepted concept with no practical actions and no accountability; second, looking at the energy and climate change examples of the G20's action I believe that if followed the same path, there can be a revolution in SR worldwide; and third, the IFAC, IIRC and GRI believe that the G20 is a well positioned candidate to deal with the encouragement and take further action on the field of SR. The G20 can play a vital role in delivering good results for SR. How can SR take advantage of the G20's positioning, capabilities and its influence? As mentioned, the G20 member countries represent around 90% of global gross national product, 80% of world trade (including EU intra-trade) and two-thirds of the world's population. This is a privileged positioning in the international business and financial arena. It gathers all it takes to influence the global economy and financial system. These resources are not used to the benefit of SR yet. Organizations as the IFAC, IIRC and GRI recognize the potential of the G20 and are active calling for its attention and urgent action on SR. More organizations, e.g. G20, UN, OECD, IMF, should get involved and collaborate in facilitating this process. Only this way companies and investors will trust that SR is becoming a reality and that by adjusting to its principles will bring them a true sustainable competitive advantage.

Recently on 30 January 2012, the UN High Level Panel for Sustainable Development published a report with recommendations for mandating SR and incentivizing cooperation between governments, international institutions and listed and large non-listed companies. This Panel urges the Secretary-General to take follow-up action on their recommendations, namely promoting them to the relevant stakeholders. The UN just included SR in its agenda and proposes concrete action; the G20 should do the same. Together, the G20 and the UN can legitimate international action on sustainability reporting.

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